



Community Conversations

Additional Information: *Tax Revenue from Cochrane /101 Shopping Center*

What are the estimated sales tax revenues for the proposed Shopping Center at the northeast corner of Cochrane Avenue and Highway 101?

In November 2005, the City Council approved the development of a 66 acre subregional retail center (Center) at the northeast corner of Highway 101 and Cochrane Road. The proposed project will consist of approximately 660,000 square feet of retail space.

Upon completion, the City anticipates receiving \$34 million in property and sales tax revenue from the Center over the first 15 years of operation. Of the \$34 million, \$26 million is considered new revenue to the City. In other words, this is revenue City would otherwise not receive. If the Center was open today, it would increase the City's current year sales tax projections by about 29% (i.e., \$5.5 million to \$7.1 million).

In addition to the revenues, the City also benefits from new shopping amenities and street improvements. Impact fees generated from the Center's development can help accelerate other City improvements and facilities in town.

What financial assistance is the City providing to the Developer?

Typically, developers of large and complex projects requiring significant financial investment on their part will request a development agreement with the City to guarantee their entitlements. In most cases, they will also request financial assistance from the City to close financing gaps or reduce the cost of development.

The City of Morgan Hill and the developer of the Center have entered into such an agreement. In this case, the Developer indicated that the Center has significant costs related to land,
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The Community Conversations are a project of the City of Morgan Hill

For more information, see the City's website at www.morgan-hill.ca.gov, send a message to CityTalk@morganhill.ca.gov, or call (408) 779-7271.



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infrastructure costs, and fees. City staff and the City's financial consultant independently confirmed that the Center did have a financial gap which warranted assistance at the proposed level. The overall project is estimated to cost over \$100 million at full build out.

Under the Development Agreement, the City receives the sales and property tax revenues generated by the development of Center, public infrastructure improvements such as widening of Cochrane Road and extension of Mission View Road, and the provision of additional commercial amenities to its citizens.

In exchange, the Developer receives assurances that water and wastewater capacity is available for the Center, that the Center may be developed in accordance with the its conditions of approval for up to 15 years, and that \$11.5 million in impact fees may be waived or reimbursed over a 15 year period.

While the Developer is allowed to waive or receive reimbursement for impact fees paid up to \$11.5 million, the City will internally repay the impact fee funds with the new sales tax generated from the Center. Over the 15 year period, the City will need to use less than half of the \$26 million in new revenue it receives to repay the impact fee funds.

The balance of the new revenue would then be used to pay for other City services related to the Center. For example, we anticipate the Center will require the addition of two police officers at full build out. Any excess revenues could then be applied to funding discretionary General Fund expenses.

The Developer expects to break ground on the first phase of the Center early summer 2006.